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## Private renting: learning the lessons from other countries

The private rented sector in England is housing an increasing proportion of the population, as the percentage of households who own their homes has fallen and little new social housing has been built over the last 20 years. Demand for rented homes is strong but mostly from households that have no alternative. Few positively prefer to rent privately but are having to rent privately on a long term basis. It is now much harder for first-time buyers to get on the property ladder.

This briefing is based on a review of the lessons from abroad. It reveals issues which might be considered in the UK to improve the operation of this sector. In other countries, a much broader cross-section of households rent from a private landlord, including middle-income families on a long term basis.

There are many differences as well as similarities with the operation of this sector across different countries. Some offer private landlords more favourable conditions which encourage investment. In the UK, leases tend to be short, but the review demonstrates that longer leases can be attractive to landlords, particularly in Germany. Initiatives in the UK have sought to attract institutional investment to expand the supply of rented homes. However in most other countries, like the UK, the vast majority of landlords are individuals renting out a few homes.

### This briefing

This briefing, prepared by Kath Scanlon, researcher at LSE London, draws on a report published by LSE London which sets out research into the operation of the private rented sector in a range of countries. 'Towards a sustainable private rented sector - The lessons from other countries' is at

[http://www2.lse.ac.uk/geographyAndEnvironment/research/london/events/HEIF/HEIF4b\\_10-11%20-newlondonenv/prslaunch/Book.pdf](http://www2.lse.ac.uk/geographyAndEnvironment/research/london/events/HEIF/HEIF4b_10-11%20-newlondonenv/prslaunch/Book.pdf)

### Policy implications

- With private renting becoming more prevalent and a long term housing option for many households in the UK, the experience of this sector in other countries offers some pointers to how this sector might operate better.
- Longer leases: in Germany, leases are generally indefinite, and landlords can only evict for specified reasons, while in the UK, landlords are generally able to evict tenants with two months' notice after the initial lease period. The UK system is flexible, while the German system provides security for those who want a long-term home.
- Different tax treatment of landlords: the tax system in many countries is more favourable to landlords than in the UK. Changes in the treatment of rental losses and depreciation would bring it into line with other countries and might attract corporate investment in the sector.
- Incentives for construction of low-income rental housing: both the USA and Australia offer tax incentives to private investors to build rented housing for low-income households. The units built with these incentives must be kept affordable for 30 years or so; in return the investors get valuable tax credits.
- Single-owner blocks: in Denmark, the USA and elsewhere, landlords typically own an entire apartment block or estate, while in the UK each individual unit is separately owned. Single ownership can improve the management of common areas, and bring economies of scale.

## Towards a sustainable private rented sector in the UK

Over the last twenty years the proportion of English dwellings privately rented has nearly doubled, to about 17%. This is partly due to an increase in demand from households who can't afford to buy (especially now that mortgage lenders require large down payments), from migrants and from those who need short-term accommodation. It also reflects an increase in the supply of private rented housing—much of it 'buy-to-let' investment funded by the specialist mortgages that first became available in the mid-1990s.

The English private rented sector has until recently been smaller than those in most other developed countries but as the sector has grown in this country, it has shrunk elsewhere, see table 1. The size of the private rented sectors are now similar in Austria, Belgium, Finland and Denmark. The countries that do have a bigger private rented sector include France (22%), the USA (32%) and Germany and Switzerland (both about 60%).

With the aid of a group of international housing experts, LSE London recently carried out a cross-country comparison of policy and practice with regard to the private rented sector. We sought to identify the factors which explain the different tenure patterns—and in particular the much larger size of the private rented sectors in some countries. We wanted to draw out the lessons for the UK, particularly from nations where more households rent. There are indeed some important differences in the treatment of the sector in other countries. Here we focus on four of the most important—and one area that is not very different.

### ● Leases

In England, the default form of lease is the assured shorthold tenancy, which usually runs for an initial period of 6 or 12 months. After this period the landlord is free to evict the tenant with two months' notice. By contrast in many European countries, including the Netherlands, Germany and Sweden, leases are generally indefinite, and landlords can only evict for specified reasons. These indefinite tenancies are associated with some control of rent increases. Longer-term leases, assured tenancies, are available in the UK but are relatively little used, partly because many mortgage lenders require properties to be let on assured shorthold tenancies.

In England, the private rented sector has traditionally been seen as a flexible tenure, ideally suited to mobile households. However it is now increasingly serving as a permanent home for many households, in-

**Table 1 Development of the private rented sector as % of housing stock since 1980**

| Country   | Private rented stock as % of housing stock |             |             |          |
|---|--|-------------|-------------|----------|
|   | early 1980s                                | early 1990s | early 2000s | latest   |
| <i>Size of sector increasing over last 30 years</i>             |  |             |             |          |
| <b>UK (England only)</b>  | 11   | 9           | 10          | 17       |
| <b>Australia</b>  | 21   | 22          | 23          | 25       |
| <i>Size of sector fell after 1980 but increased since 2000</i>  |  |             |             |          |
| <b>France</b>   | 25   | 21          | 21          | 22       |
| <b>Hong Kong</b>  | 24   | 14          | 15          | 16       |
| <b>Ireland</b>  | 13   | 10          | 7           | 10       |
| <i>Size of sector about the same over last 30 years</i>         |  |             |             |          |
| <b>Germany</b>  | About 60                                   | About 60    | About 60    | About 60 |
| <b>USA</b>  | 33   | 35          | 32          | 32       |
| <i>Size of sector fell after 1980 and stabilised after 2000</i> |  |             |             |          |
| <b>Sweden</b>   | 21   | 20          | 17          | 17       |
| <b>Norway</b>   | 27   | 18          | 17          | 17       |
| <b>Switzerland</b>  | 59   | 59          | 56          | About 56 |
| <i>Size of sector falling over last 30 years</i>                |  |             |             |          |
| <b>Austria</b>  | 25   | 21          | 18          | 16       |
| <b>Belgium</b>  | 27   | 24          | 20          | 18       |
| <b>Finland</b>  | 22   | 12          | 17          | 16       |
| <b>Denmark</b>  | 22   | 18          | 18          | 16       |
| <b>Netherlands</b>  | 19   | 13          | 13          | 10       |
| <b>Spain*</b>   | 19   | 15          | 11          | 7        |

Source: Country experts questionnaires \*% of occupied principal residences. There are also large numbers of holiday and vacant dwellings.

cluding families. Households who want to be able to stay in their homes for the long term, and landlords who want long-term tenants, might be better served by longer leases. A wholesale change here to unlimited leases is highly unlikely, as it would more or less bring back the system that prevailed before 1988 –and only after that system was abolished did the private rented sector start to grow after 90 years of decline. But there is a place for longer-term leases, particularly for the families that are increasingly living in the sector. We need to understand why assured tenancies, which can provide more security for such households, are not more widely used.

- **Tax treatment of landlords**

Landlords in England can set any losses from private renting off against other rental income, but not against other types of income such as salaries, etc. There is no depreciation allowed on rental property. In many countries, losses from rental businesses can be offset against all types of income—this is often known as ‘negative gearing’. Many countries also allow landlords to depreciate their property assets.

Over the years various attempts have been made to increase the proportion of institutional landlords—so far without notable success (see below). More generous tax treatment might attract more investors to the sector, particularly corporate or institutional investors could make use of these allowances in a strategic way.

- **Incentives for the construction of low-income rental housing**

In England many low-income households who would prefer to live in social housing have to live in the private rented sector, because social waiting lists are long and little new social housing is being built. In the USA, Australia and Germany, private landlords have been harnessed to provide dedicated low-income housing. Tax incentives are offered to private investors to build rented housing for low-income households; in return the units built with these incentives must be kept affordable for a period of 30 years or so.

There is no specific ‘low-income’ segment of the private rented sector in England—which is in many ways a strength, as it means the housing stock is flexible. But standards at the bottom of the market, where housing-benefit recipients are concentrated, are often low. Giving incentives for creating homes for this part of the market might increase overall supply and raise standards.

- **Blocks in single ownership**

In England even large landlords rarely own entire blocks of flats; more commonly they own individual units in several buildings. This wasn’t always the case—in the 1930s there was a spate of construction of purpose-built rental blocks in England, and these once-stately buildings line some of the main roads of London’s inner suburbs. Now, however, almost all flats are separately owned. In the USA and Denmark, in contrast, it is very common for private landlords to own entire blocks or estates of rental housing. In Denmark and a few US cities there are legal restrictions on breaking up the ownership of blocks. In most of the USA the individual sale of apartments from such blocks is not restricted, but in practice it is very rarely done.

To assemble a large rental portfolio is a challenge in England, unless a landlord concentrates on new-build flats. The single ownership of entire blocks provides much larger investment opportunities, which might be more attractive to institutional investors. Landlords can also take advantage of economies of scale in the management and maintenance of their stock, and it may also lead to increased provision of communal facilities. Most private rented estates in some US cities have one or more communal swimming pools, for example.

- **One similarity: the small time landlord predominates**

For decades, various governments in England have attempted to attract institutions to invest as landlords in the private rented sector, in the expectation that they would ‘professionalise’ the sector. However the sector remains resolutely small-scale and ‘amateur’—most private landlords in England are individuals or couples owning five or fewer properties. This is very similar to the profile of landlords in most of the other countries we studied. Even in Switzerland, where institutions are required by law to invest in property, over 60% of private landlords are individuals—and in France the figure is more than 95%. See table 2.

Some of the policy ideas set out above might have the effect of increasing the interest of institutional investors in the sector. But comparison with other countries suggests that this should be thought of as a positive side effect rather than as a central goal.

- **Conclusion**

The financial crisis has reinforced many of the pressures on the private rented sector as owner occupation has become more difficult to access and more risky. In addition the availability of funding for new social housing has been severely reduced. This points to the need to maintain and improve the private rented sector to accommodate both long-term residents and the increasing numbers of mobile and migrant households, and to support labour markets more effectively.

There is no ‘right’ size for the private rented sector— it differs from country to country as it is determined not only by the demand for private renting but also by the desirability and accessibility of other tenures. But every country should aim to have a housing system that meets the requirements of its households in all their variety.

- **Further Information**

Scanlon K. & Kochan B. (eds) (2011) Towards a sustainable private rented sector - the lessons from other countries, LSE London is at [http://www2.lse.ac.uk/geographyAndEnvironment/research/london/events/HEIF/HEIF4b\\_10-11%20newlondonenv/prslaunch/Book.pdf](http://www2.lse.ac.uk/geographyAndEnvironment/research/london/events/HEIF/HEIF4b_10-11%20newlondonenv/prslaunch/Book.pdf)

The papers and presentations associated with the various events organised as part of of this initiative are available on LSE London's web-site:

<http://www2.lse.ac.uk/geographyAndEnvironment/research/london/Home.aspx>

**Table 2 Percentage of PRS dwellings owned by different types of landlord (highest-lowest 2nd column)**

|             | % of dwellings in the private rented sector owned by various types of landlord (highest-lowest 2nd column) |   |   |
|-------------|--|---|---|
|             | Individuals or couples   | Institutional landlords                         | Other   |
| France      | 95.1   | 3.3   | 1.6   |
| Ireland     | Most   | Very few  |   |
| Australia   | Most   | None  | Some employer                                     |
| Belgium     | 86   | 14  |   |
| Spain       | 86   | 6.7   | 7.2 State-owned bodies                            |
| Norway      | 78   | 22  |   |
| USA         | 78   | 13 (Corporations, including REITS)              | 5 Cooperatives and non-profits<br>4 Other         |
| UK          | 75   | 25  |   |
| Switzerland | 63   | 23  | 12  |
| Germany     | 61   | 17  | 9 Cooperative businesses<br>1 churches and others |
| Finland     | 60   | 37  | 3   |
| Netherlands | 44   | 37  | 19 (includes renting from family)                 |
| Denmark*    | 8  | 10  | > 50 Professional landlords                       |
| Austria     | Very few   | Most (corporations, municipal bodies)           |   |
| Sweden      | Very few   | Mostly companies (including personal companies) |   |

\*‘Professional landlords’ includes individuals and couples who are full-time landlords  
Sources: Spain: Survey on Rental Housing 2003; Germany: GDW 2008 (from 2006 figures); Netherlands: WoON 2009 calculations by TU Delft/OTB; Denmark: Andersen 2010; Switzerland: own calculations from Statistik Schweiz. Other figures from country experts’ questionnaires.